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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001182

SIPDIS

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TAGS: PREL PGOV ECON EPET BA SA

SUBJECT: BAHRAIN EXPECTS CONTINUED STRONG RELATIONS WITH SAUDI, HOPES FOR RESUMPTION OF OIL GRANT

Classified by Charge d'Affaires Susan L. Ziadeh for reasons 1.4 (b) and (d).

Summary

¶11. (C) In the widespread public and private expressions of condolences for the death of Saudi King Fahd, Bahrainis of all backgrounds have registered their appreciation for Fahd's support for Bahrain's development. Foreign Minister Shaikh Mohammed said that Bahrain strives always to have strong relations with Saudi Arabia and hopes to regain the 50,000 barrel/day oil grant that expired last summer. He said a new generation of leaders should assist in speeding up the pace of reform. Saudi Ambassador to Bahrain Al Kuwaiz noted a personal link between King Hamad and Crown Prince Sultan and thought that bilateral relations could grow stronger. He said Bahrain had not made a case for resumption of the oil grant and questioned whether it was really necessary. Bahrainis are constantly reminded of their country's reliance on Saudi Arabia, particularly during the summer when the vehicles of vacationing Saudis clog the roads. End Summary.

Condolences, Congratulations for Saudi Kings

¶12. (U) Bahrainis from across the political and religious spectrum have publicly and privately expressed their condolences for the death of Saudi King Fahd and congratulations for King Abdulla's ascension to the throne. Following the August 1 announcement of Fahd's passing, Bahrain's newspapers were filled with statements from King Hamad on down recalling Fahd's accomplishments and support for Bahrain's development. Many identified the King Fahd Causeway linking Bahrain with the Eastern Province as a practical and symbolic expression of the late King's assistance to Bahrain.

ForMin: More Oil, More Reform

¶13. (C) Deputy Prime Minister/Foreign Minister Shaikh Mohammed bin Mubarak Al Khalifa told the Charge August 10 that Bahrain strives always to maintain the best possible relations with Saudi Arabia. He recognized there have been problems recently - in summer 2004, Saudi Arabia did not renew its grant of 50,000 barrels/day of oil, and in December 2004 the SAG publicly expressed its anger over the U.S.-Bahrain free trade agreement (FTA). Shaikh Mohammed said that the FTA flap was now over and that Bahrain hoped to reach a "satisfactory conclusion" on the oil grant. Bahrain needs more, not less, assistance from Saudi Arabia, the ForMin said.

¶14. (C) Shaikh Mohammed hoped that a new generation of leaders in Saudi Arabia would make their presence felt. King Abdulla was talking the language of reform, had released some political prisoners, and should now focus on speeding up the reform process. Shaikh Mohammed commented that reforms in Saudi Arabia were "important for them and for us."

Saudi Ambassador: Does Bahrain Need Oil Grant?

¶15. (C) Saudi Ambassador to Bahrain Al Kuwaiz told the Charge August 15 that in his view bilateral relations are good, there are no major problems, and he forecasts they will grow stronger under the new Saudi leadership. "Sultan has a strong personal relationship with the King here, and now that he is Crown Prince, he's in a position to be more helpful." He thought that King Abdulla may want to make a goodwill gesture toward Bahrain at the beginning of his reign, but had no specific ideas on what form this might take.

¶16. (C) In response to the Charge's question, Al Kuwaiz asserted that the offshore Abu Safa oil field belongs to Saudi Arabia, which chooses to share production with Bahrain as a means of assistance. (Note: In an earlier conversation with the Ambassador, King Hamad claimed a treaty concluded by his father, the late Amir Issa, with the Saudis specified

that the two countries split production 50/50. End Note.) Bahrain receives some 150,000 barrels/day as a result of the production sharing.

¶ 17. (C) With regard to the 50,000 barrel/day oil grant, Al Kuwaiz said that Saudi Arabia's assistance to Bahrain is, after all, needs based, and that Bahrain has not demonstrated or even stated a real need for additional assistance. The grant started when oil was \$18/barrel. Now that the price is over \$60/barrel, Bahrain is enjoying windfall revenues from its share of Abu Safa production. He noted that Bahrain increased the pace of public sector projects at the end of last year in order to spend unexpected government revenues from high oil prices, raising the question whether Bahrain really required additional assistance.

Oil A "Gracious Gesture" from King

¶ 18. (C) A Ministry of Commerce official who works closely with Saudi Arabia on trade issues told Econoff that Saudi-GCC relations were growing warmer as the countries became more comfortable with bilateral (vice GCC-wide) trade agreements. His improved relations with Saudi counterparts lead him to believe that Saudi Arabia will resume the oil grant sometime soon. A Bahraini economics professor agrees, telling Econoff that doing so would be a "gracious gesture" by King Abdulla.

¶ 19. (SBU) Among press commentaries, Sayed Dhiya Al Mousawi's column in the August 2 Al Wasat newspaper was notable. Al Mousawi, who is both a widely respected columnist and a leading Shia scholar, wrote that Saudi Arabia has played a major role in serving Arab and Islamic causes, in particular the Palestinian issue and Iraq's invasion of Kuwait. He states that Bahrain and Saudi Arabia should be considered as "one entity" in the political, economic, social, and security fields. Al Mousawi's generous statements are surprising given the traditional friction between the Saudi government and Shia Muslims.

Comment

¶ 10. (C) Bahrain's reliance upon Saudi Arabia is never far from the minds of Bahraini citizens, particularly in the summer months when roads become clogged with the vehicles of Saudi visitors. Most people anticipate no real changes in the bilateral relationship, mainly because Abdulla's ascension only formalizes the control he has held for a decade. Bahrainis are hopeful Saudi Arabia will resume the oil grant, perhaps as a gift from the newly crowned king. In this era of sky-high oil prices, an additional 50,000 barrels/day would have a significant impact on this small economy.

ZIADEH